



**MINUTES FROM MEETING OF THE BANKING SUBCOMMITTEE  
OF THE CASH MANAGEMENT POLICY BOARD  
May 3, 2016**

A Telephonic Meeting of the Banking Subcommittee of the Cash Management Policy Board was Held on Tuesday, May 3, 2016 at 11:00 AM in the Conference Room of the Office of the State Treasurer Located at 820 Silver Lake Blvd., Suite 100, Dover, Delaware.

Board Members in Attendance:

Mr. Warren Engle, Chair, Banking Subcommittee of the Cash Management Policy Board  
The Honorable Ken Simpler, State Treasurer  
The Honorable Tom Cook, Secretary, Department of Finance (Telephonically)  
Ms. Lynda Messick (Telephonically)

Board Members Not in Attendance:

Mr. John Flynn, Chairman, Cash Management Policy Board

Others in Attendance:

Ms. Laura Gerard, Deputy Attorney General, OST Counsel (Telephonically)  
Mr. Steve McVay, Director of Investments and Cash Management, Office of the State Treasurer  
Mr. James DiDonato, Office of the State Treasurer  
Ms. Susan Steward, Policy Advisor, Office of the State Treasurer  
Ms. Martha Sturtevant, Executive Assistant to the State Treasurer

**CALLED TO ORDER**

Mr. Engle called the meeting to order at 11:03 AM.

**RECOMMENDATION FOR DIRECT DEPOSIT RFP**

Mr. DiDonato presented a detailed review on behalf of the selection committee. He reviewed the seven RFP responses and provided an overview of the three finalist presentations by Wells Fargo, JP Morgan and Chase. Mr. DiDonato stated that the evaluation team unanimously recommends the incumbent Wells Fargo. He stated the evaluation team came to their decision based on superior pricing and the level of service currently provided.

Mr. Simpler asked that the written summary of the selection committee's recommendation be attached for the record.

A MOTION was made by Mr. Cook and seconded by Mr. Simpler to accept the recommendation of the selection committee for presentation to the full-board.

**MOTION ADOPTED UNANIMOUSLY**

## **UPDATE MERCHANT SERVICES RFP**

Mr. DiDonato reviewed the submitted proposals for the Merchant Services RFP. He identified the four proposals from EPX (incumbent), Wells Fargo Merchant Services, Bank of America Merchant Services, and Municipal Services Bureau. He stated that the three former were brought in for formal presentations and that the selection committee would be meeting shortly to review the submissions.

Mr. DiDonato reviewed the makeup of the evaluation committee to include; the Division of Revenue, Courts, Division of Corporations, Department of Motor Vehicles, Division of Accounting/PHRST, the Office of the State Treasurer, and DTI. He added that DNREC was invited to attend, but was not a voting member of the committee.

Mr. Engle added that he was concerned about the financial performance of the provider and that he was looking forward to hearing from the selection committee. Mr. DiDonato said expenses were an additional concern. Mr. Simpler recommended the selection committee meet for a deep review of those concerns. Mr. DiDonato stated he would meet with the selection committee and would prepare a summary for the full board.

## **EXTENSION OF CURRENT DISBURSEMENTS CONTRACT**

Mr. McVay said OST suggests forming a banking taskforce that would consist of multiple agencies to look at the overall structure of the State's banking architecture, and consider hiring an outside consultant for an independent review and possible consolidation of banking services. Mr. McVay said extending the contracts through December 31, 2017 to allow the taskforce time and flexibility to consider simultaneously issuing multiple RFP's.

Mr. McVay reviewed three extensions for the subcommittee's consideration.

Mr. McVay said all of the State's ACH vendor payments and all the State's checks are written from the PNC disbursements account. He cited the level of service currently provided by PNC, and recommended extending the PNC contract for one year.

A MOTION was made by Mr. Cook and seconded by Mr. Simpler to extend the PNC disbursements contract for the period of one year.

**MOTION ADOPTED UNANIMOUSLY**

## **EXTENSION OF LOCKBOX CONTRACTS**

Mr. McVay requested the extension of lockbox contracts. He said PNC and JPMorgan Chase both have contracts that expire in December 2016. Mr. DiDonato added that the departments were satisfied with the level of service provided by PNC and JPMorgan.

A MOTION was made by Mr. Engle and seconded by Mr. Cook to extend the PNC lockbox contracts for the period of one year.

**MOTION ADOPTED UNANIMOUSLY**

A MOTION was made by Mr. Engle and seconded by Mr. Cook to extend the JM Morgan Chase lockbox contracts for the period of one year.

**MOTION ADOPTED UNANIMOUSLY**

## **DISCUSSION OF BANKING COLLATERALIZATION**

Mr. Simpler stated that the discussion of bank collateralization came up as part of the Guidelines review process. He stated that OST had been operating under a mandate from the previous Treasurer to cash collateralize all the cash management banks based on an average monthly balance. Mr. Simpler stated when OST looked at the balances during the month that they varied by as much as several hundred million dollars. Mr. Simpler asked the subcommittee to consider whether daily balances should be collateralized and not based on the average monthly balance, and whether it was appropriate or overly cautious.

Mr. McVay stated that 7 banks and 6 existing contracts would be affected. He stated he had spoken with West Virginia as one example of daily collateralization, but he had not yet comprehensively reached out to other state treasuries. Mr. McVay said West Virginia has a single vendor contract for a safe keeping agent that is responsible for adjusting collateral balances on a daily basis. He added the service was not inexpensive.

Mr. McVay said that he had reached out to Citizens, Bank of New York Mellon, and PNC banks for more information. He reviewed the collateralization options of each. Ms. Messick asked about the costs. Mr. McVay said he did not yet have estimates.

The subcommittee discussed the potential for excessive exposure. Mr. Simpler stated that OST would talk to other state treasurers and gather hard proposals.

Mr. Engle acknowledged the potential costs but stated he was unsure the risk exposure was worth the trade-off. Mr. Engle added that he was open to further review and indicated he would like to be part of the working committee.

## **OLD/NEW BUSINESS**

Mr. Simpler introduced Ms. Steward to the subcommittee.

## **PUBLIC COMMENTS**

No public present for comment.

## **ADJOURNMENT**

A MOTION was made by Mr. Simpler and seconded by Mr. Engle to adjourn the meeting at 11:53 AM  
MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

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Warren Engle  
Chair for the Banking Subcommittee, Cash Management Policy Board

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Thomas J. Cook  
Co-Chair for the Banking Subcommittee, Cash Management Policy Board

# Direct Deposit RFP

## Summary of Finalist Presentations

### Summary

Seven banks responded to the State's RFP for Direct Deposit banking services. They are US Bank, Bank of America, BNY Mellon, PNC Bank, Wells Fargo Bank, JPMorgan Chase Bank, and KeyBank. After examining the respective proposals – with more emphasis placed on performance than pricing – the Evaluation Team concluded that Wells Fargo, JPMorgan Chase and PNC Bank provide the best fit for the State. Indeed, each of these three can provide the Direct Deposit of payroll and pension service at a high level.

The Team believes that Wells Fargo, the incumbent, should be awarded the contract. Its outstanding presentation and proposal, including the lowest pricing among all bidders, and strong record of performance has earned this bank the right to retain the business.

The finalists were invited to make oral presentations to the Team. A summary of those presentations is provided below in the order they were delivered.

### **JPMorgan Chase** *Wednesday, March 23, 2016*

Everyone agreed that the three bankers – Bill Zuk, Michael Pressman and Jim Rowe – made an effective presentation. Product Manager Steve Bernstein and Senior Implementation Project Manager Nashonda David joined the meeting via telephone.

JPMC is the country's 2<sup>nd</sup> largest ACH originator. Despite the fact that the State would not be one of the bank's largest clients, they gave assurances that we would receive preferred treatment through the bank's Client Service Team. The Help Desk is staffed 24x6. JPMC offers free email notifications on a myriad of events, and they are very flexible on the way files are transferred. The NACHA file format is agreeable to PHRST and Pensions, as is the file encryption and transfer via SFTP and GPG. PHRST agreed that it would be easy to switch from a "pull" to a "push" method. One bank "differentiator" product is *eServe*. It's part of the *ACCESS* reporting module, and it allows the State to run inquiries, perform searches, and do other interactive things. The relationship would be managed out of Philadelphia, customer service would out of Albany, and the ACHs credits would be originated out of Tampa.

One concern is the proposal's list of ancillary services. For most services there, the bank did not provide annual volume and cost estimates. They explained that those services should not be used in the normal course of business, so the impact on the annual fee should be minimal. The Team rated its overall pricing based on the assumption that the stated annual ancillary services fee of \$2,052, while certainly not exact, would be close to what the State actually experiences. Though not directly related to Direct Deposit, JPMC is doing a good job with the Div of Corporations lockbox. Also not directly related, the bank has experienced some recent setbacks to its image through scandal (London LIBOR, for example) and its abandonment of the Stored Value Card business (where the State was a client). For such reasons, the Team believes there is an imperative for the bank to provide "best in class" service.

JPMorgan Chase is very strong in both the ACH function and the government sector (despite its withdrawal from the Stored Value Card business), and the Evaluation Team believes the bank could perform this business at a high

level for the State. Factoring in the ancillary services already mentioned, its overall pricing was narrowly the second lowest among the bidding banks.

### **Wells Fargo Bank** *Thursday, March 24, 2016*

The Evaluation Team met with bankers Rick Welsh and JoEllyn Powell. Wells Fargo (WF) is the largest ACH originator in the country, and 80% of its ACH transfers are business to consumer – exactly what Direct Deposit is. WF has 5,000 clients in the government/higher education space. Despite its size, the State has always had – and would continue to have – a dedicated customer service officer. PHRST and Pensions feel strongly that the bank’s customer service has been outstanding throughout the relationship.

WF pointed out two new enhancements that could have a bearing on this business. First, it now has a two-part account validation service to help guard against fraud via identity theft. The second is “B2P,” a business to person method of sending payments using cell phone and email information instead of bank account information – a service that’s in growing demand by Millennials. The reporting tool *CEO* comes in a “mobile” version that has a robust functionality – including the ability to simply receive notification messages. (*CEO Mobile* was the first full-function mobile banking app in the country.) WF recently rolled out a service to expedite ACH payments to credit unions, which normally must receive transactions through intermediary “payable through” institutions. This is noteworthy, because many State employees and pensioners have accounts with Delaware credit unions, especially Dover Federal and Del-One.

WF also differentiates itself by providing a free consulting service called Ethnography. Bank product experts will make site visits to State agencies, conduct research and analysis, and present recommendations on how workflow and processes can be improved. Wells Fargo pricing was lowest among the seven banks that responded to this RFP. (It is generally maintaining the status quo on the pricing the State has had for some time.)

### **PNC Bank** *Tuesday, March 29, 2016*

PNC was represented by Bruce Colbourn, Karen Rice and Elizabeth Bravacos. The State has a long-standing, broad relationship with PNC for such core services as lockboxing, petty cash accounts and controlled disbursements. PNC has 21,000 ACH origination clients. The State now initiates both ACH credits and ACH debits through PNC, and our Direct Deposit volume would place us in the Top 25 of ACH originators. PNC is the smallest of the three finalists; the other two are national banks and PNC is a super-regional bank. Like the others, it has direct involvement with NACHA committees.

The presentation included a review of how the bank would handle our Direct Deposit function under three scenarios: routine, exceptions, and file unavailable. The State’s treasury services officer – Karen Rice – would play a pivotal role in the second and third scenarios. That’s a strong benefit, as she has proven over time to be a dependable and knowledgeable bank officer for the State. PNC’s Pinnacle reporting system is widely used by the State, though PHRST is unfamiliar with it, and Treasury directly influences its features through participation as a member of the Pinnacle User Group.

Throughout its relationship with the State, PNC has consistently informed Treasury of new banking products and services that allow agencies to be more efficient. As a current client, the State and the bank have honed the file transfer process. PNC’s pricing was significantly higher – more than that of the other finalists, albeit the proposal claims savings combined with the rest of the State’s business due to the efficiencies of scale.

*This summary was prepared by Manager of Banking Services James DiDonato, leader of the RFP Evaluation Team.*